PCG Knowledge Sharing Series

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PETRONAS

PCG Webinar
2026 Petrochemicals Outlook

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2026 Chemicals Market Outlook

Nawaree Suvanmani
Manager,
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2026 will unfold against a fragmented global order reshaping growth, trade and investment

A multipolar order deepens as US influence wanes and US-China rivalry entrenches

Economic growth moderates as tariff curb consumption, reinforcing regionalised trade

China turns increasingly inward while sustaining export amid a subdued domestic economy

Investment continues to concentrate on AI, power grids and the energy transition

Source: SR analysis

Key trends in the chemicals market for 2026

The chemical industry faces **margin pressure** from **overcapacity** and **sluggish demand**

Asia leads the **global chemical** market, focusing on **high-growth sectors**

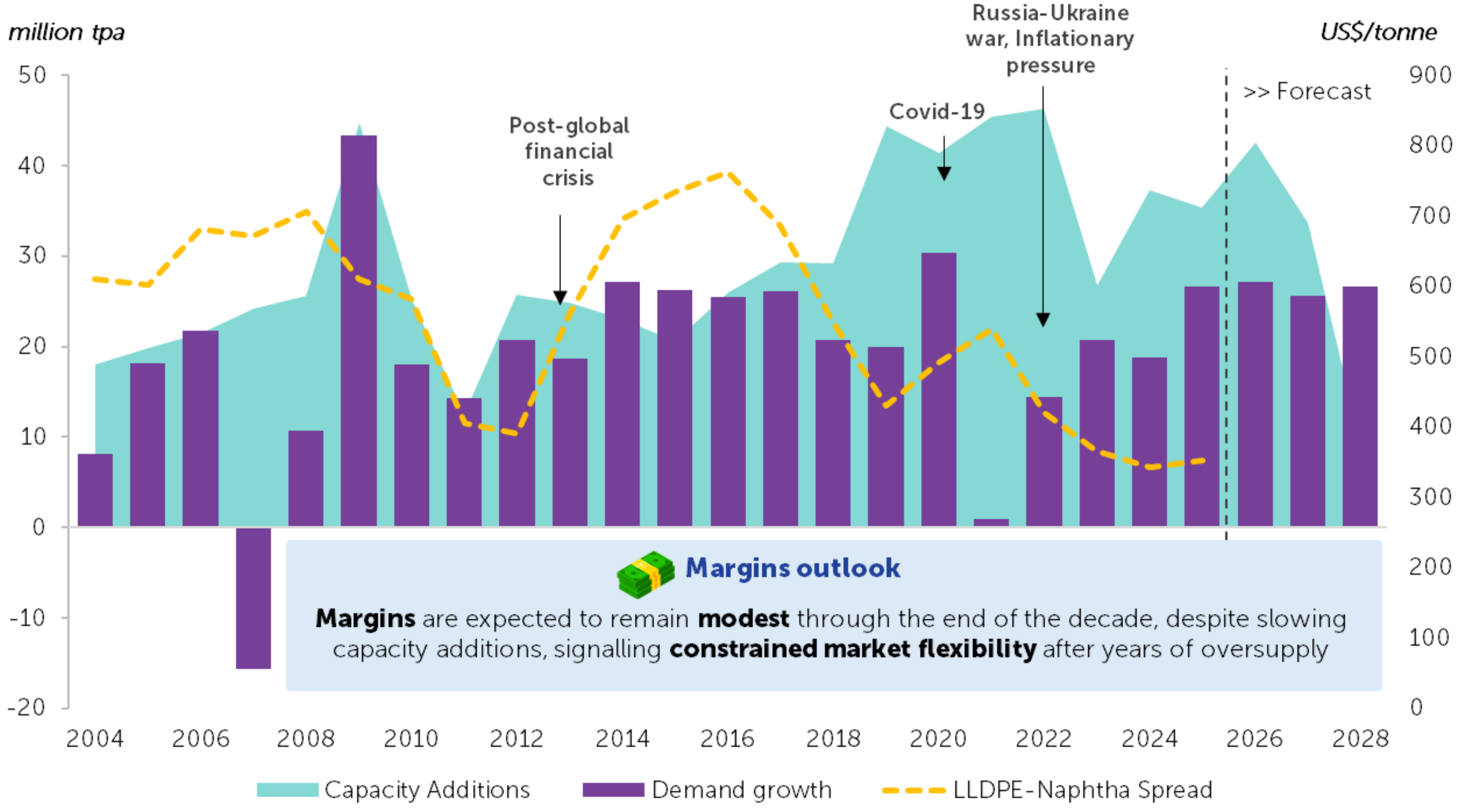
Ongoing focus on **sustainable products** supports innovation and decarbonisation initiatives

Source: Wood Mackenzie, SR analysis

Current chemical industry is in a trough, with oversupply compressing margins and tariffs adding further pressure

Global chemical products in 2026 remain in oversupply, and moderate demand keeps margins modest

Global chemicals demand growth & capacity additions vs LLDPE-Naphtha spread



Note: Chemical products calculated include benzene, butadiene, ethylene, methanol, propylene, PX, PE & PP

Ongoing trade wars further add to chemicals market uncertainty

News snippets on protectionist measures

Trump administration rescinds increased tariffs on fertilisers

November 2025

US tariffs weaken German chemical exports

October 2025

New plants, US trade worries to drive China's 2025 naphtha imports to record

July 2025

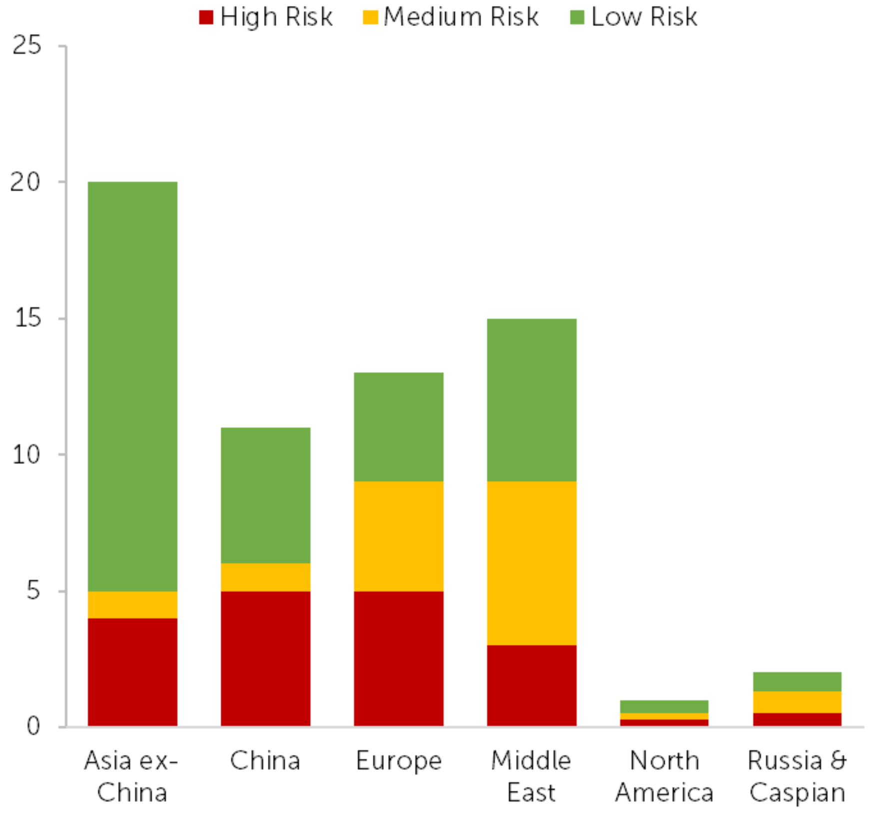
Source: CMA, SR analysis

Strategic partnerships, consolidation and capacity closures are key to maintaining competitiveness during periods of intensified competition

Companies reassess global assets to enhance flexibility, reflecting differentiated regional strategies

Global steam crackers at risk of closure (2025 basis)

million tpa



Source: Wood Mackenzie

Differentiated regional strategies among chemical companies

US: Leverages low-cost shale gas for export growth

- Capitalise on shale gas for C1 & C2 chemicals production
- Market & profit driven investment and technological innovation
- Enhance competitive exports

Middle East: Hydrocarbon resource strategist

- Leverage oil & gas resource to access higher-value market
- Expand and diversify downstream operations
- Ensure stable oil placement

China: Self-sufficiency champion

- Benefit from access to vast domestic market
- Enjoy low capex per tonne while pursuing self-sufficiency
- Anti-involution policies support competitiveness and value-chain upgrading

NE Asia excl. China: Push for restructuring

- Consolidate steam crackers
- Focus on sustainable-driven business and specialties
- Cut costs

SE Asia: Imported feedstock & limited R&D strain the margins

- Balance expansion within financial ability
- Pursue M&A and infrastructure investments

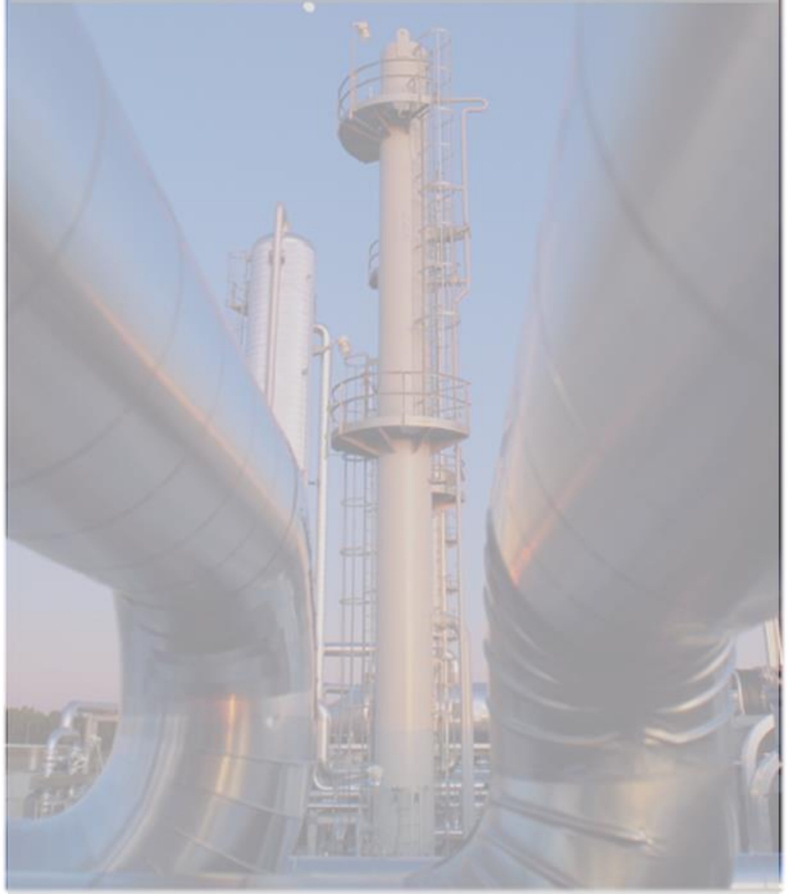
Europe: Burdened by high costs and regulations

- Divest underperforming assets
- Focus on specialties and green innovation
- Cut costs

Source: Wood Mackenzie, Chemical Week, S&P, Deloitte, SR analysis

Key trends in the chemicals market for 2026

The chemical industry faces margin pressure from overcapacity and sluggish demand



Asia leads the global chemical market, focusing on high-growth sectors

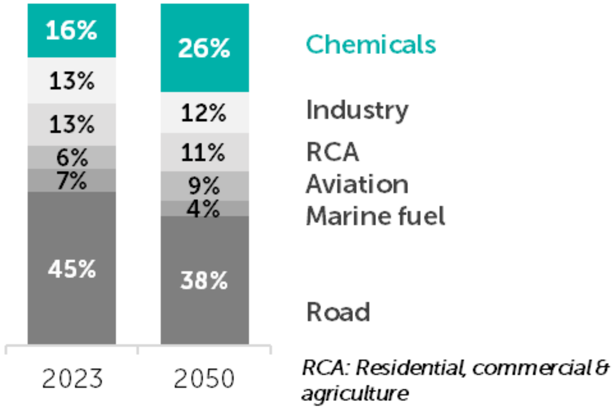
Ongoing focus on sustainable products supports innovation and decarbonisation initiatives

Source: Wood Mackenzie, SR analysis

Despite challenges, Asia leads the global chemicals market, driving high-growth opportunities

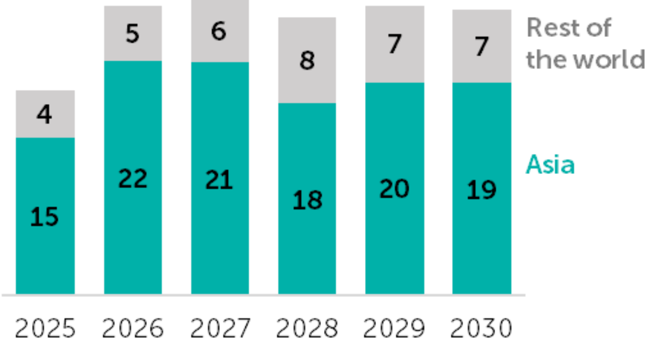
Chemicals drive petroleum growth as road fuel demand falls; Asia leads

Global petroleum products share



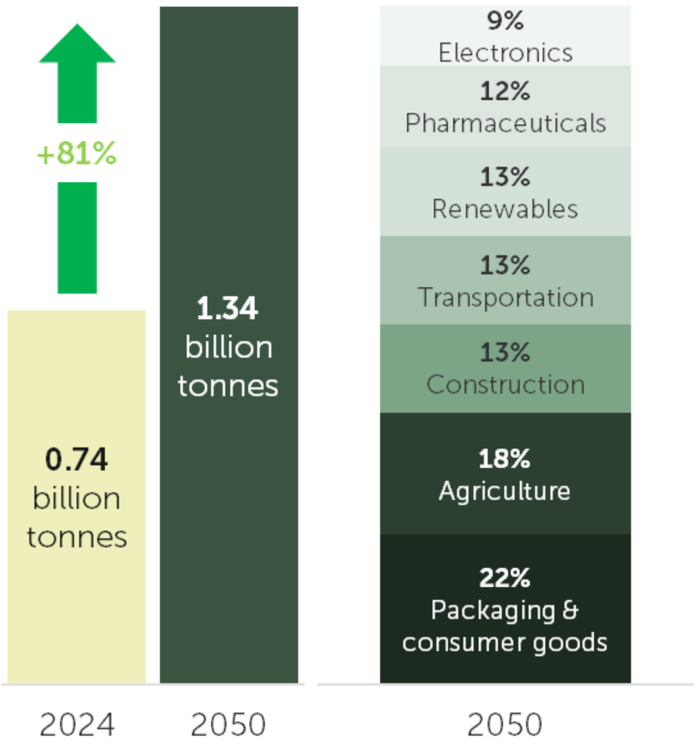
Global chemicals demand growth

million tpa



Chemicals demand to grow through 2050, supported by rising population

Global basic chemicals demand and its key driver by sectors



Growth also fuelled by clean energy technologies and data centres

Chemicals powering clean energy technologies & data centres

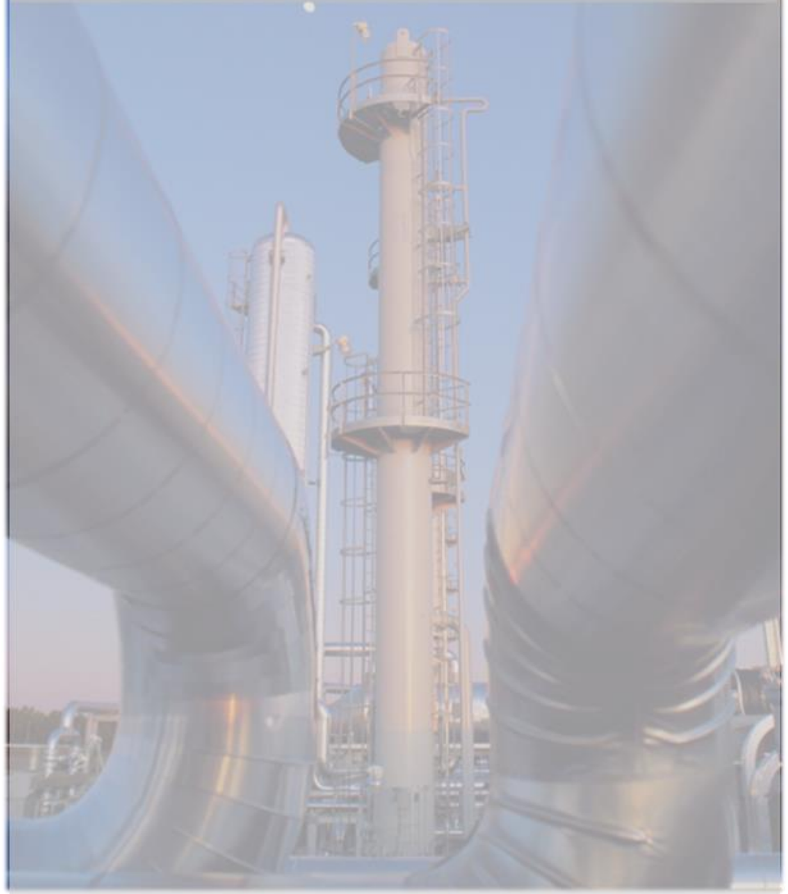
EV	Lightweight materials for electrification
RE	Epoxy resins & synthetic lubricants for wind turbines
RE	Polymers & elastomers for solar panels
CCS	Specialty solvents & chemicals for carbon capture
Data Centres	Cooling fluids and electronic-grade chemicals

Note: Chemical products calculated include benzene, butadiene, ethylene, methanol, propylene, PX, PE & PP

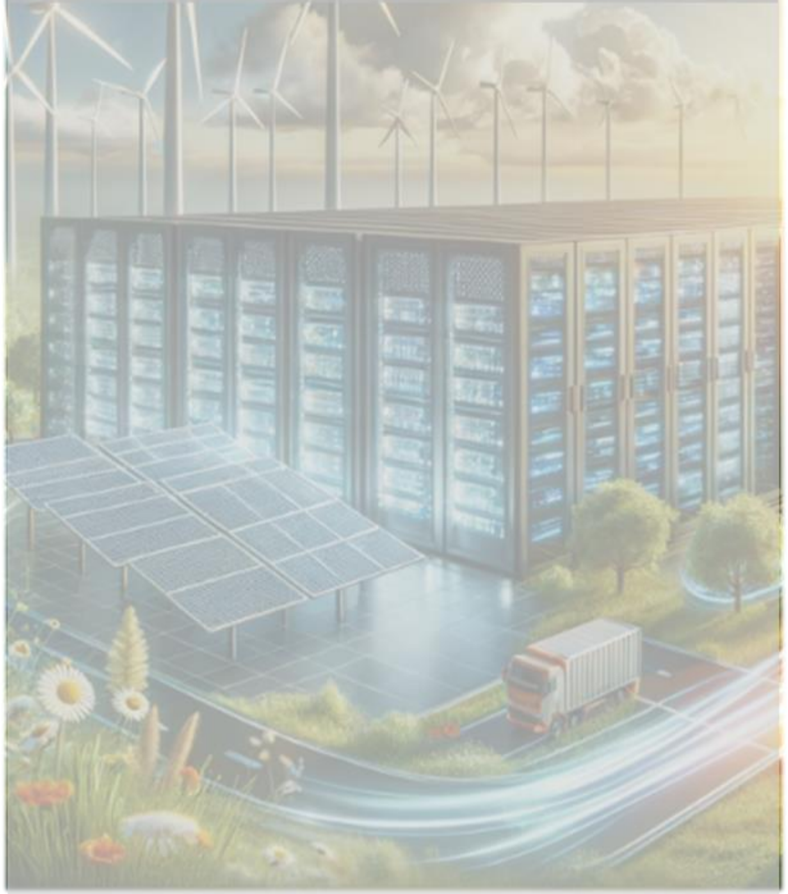
Source: CMA, S&P, SR analysis

Key trends in the chemicals market for 2026

The chemical industry faces margin pressure from overcapacity and sluggish demand



Asia leads the global chemical market, focusing on high-growth sectors



Ongoing focus on sustainable products supports innovation and decarbonisation initiatives

Source: Wood Mackenzie, SR analysis

Industry players adopt sustainability-driven business models to capture new growth and earn social license to operate

Pathways towards a low-carbon future in the chemical industry

Greening of facilities

Circular economy

Alternative feedstocks

New businesses

Source: SR analysis

Key Takeaways for 2026 Chemicals Market Outlook

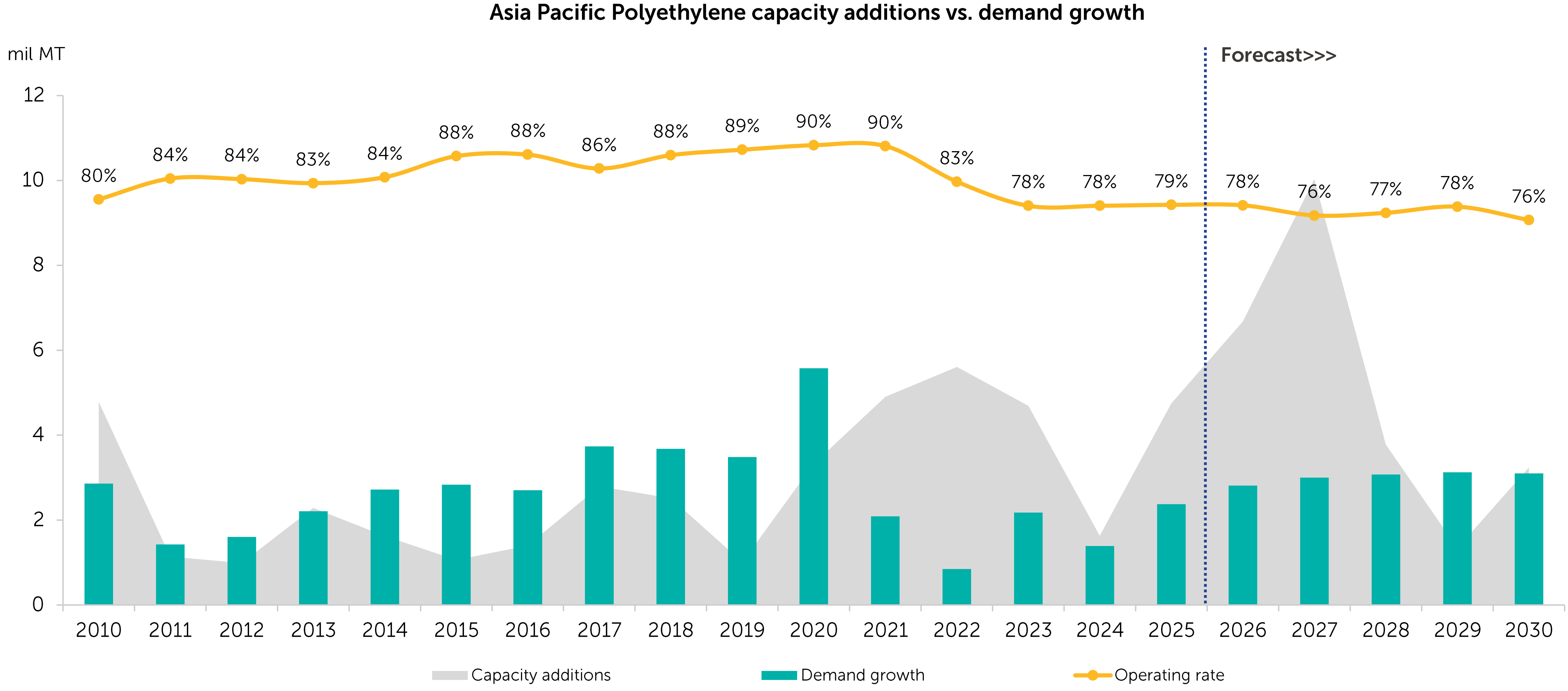
- Margins under pressure as **oversupply** and trade tensions keep profitability tight, driving **consolidation and strategic partnerships**
- **Asia drives growth** with population, urbanisation, industrial expansion, and high-value and specialty chemicals supporting demand through 2050
- **Regional strategies** see the US leveraging shale gas, Middle East expanding downstream, China and NE Asia focusing on self-sufficiency and specialties, and Europe investing in green innovation
- **Sustainability is reshaping the industry** with greening of facilities, recycling and reuse, alternative feedstocks and low-carbon business development
- **High-growth opportunities** emerge from EVs, lightweight polymers, renewable energy, carbon capture and storage, and data centres boosting demand for advanced chemicals and materials

PCG Key Products Outlook

Noorfurqan Irfan
Executive,
Business Analysis & Market Research, PCGB

Polyethylene

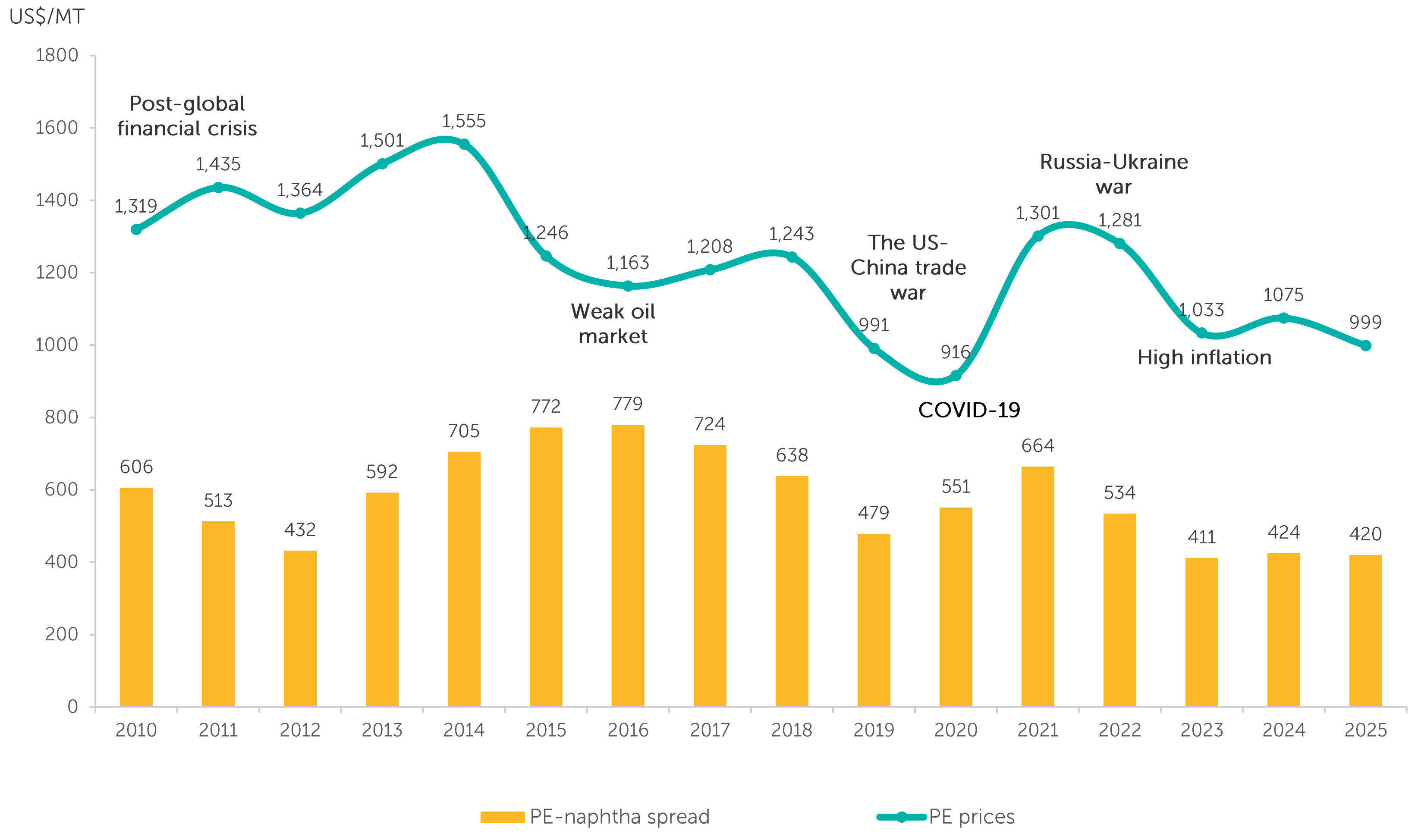
A wave of capacity additions will suppress polyethylene operating rates until end of the decade



Source: S&P Global Commodity, CMA, Team Analysis

Despite expected demand recovery, spread will continue to be pressured by massive capacity expansion

Historical SE Asia Polyethylene CFR prices & spreads



Source: *S&P Global Commodity, CMA, ICIS, Team Analysis*

MARKET OUTLOOK

By 2027, **China** is forecast to reach and exceed **100% self-sufficiency** on a nameplate basis

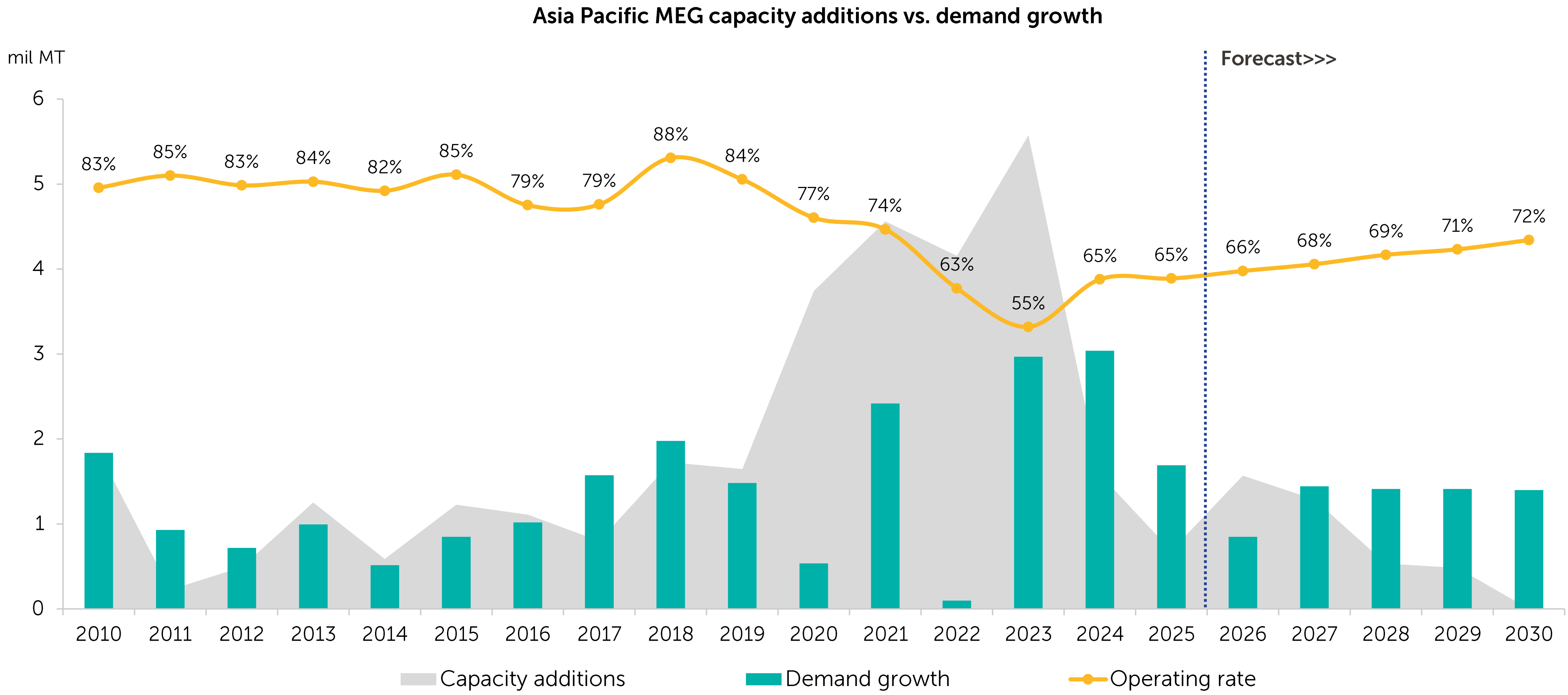
Low-cost producers include North America, Saudi Arabia, and some producers in West Europe and Asia that use **imported ethane**

In 2027 and 2028, global operating rates are forecast to **bottom out at 74%** due to a **surge of capacity additions**

Asia Pacific PE demand continues to **grow**, making the region the primary driver of **global demand growth**

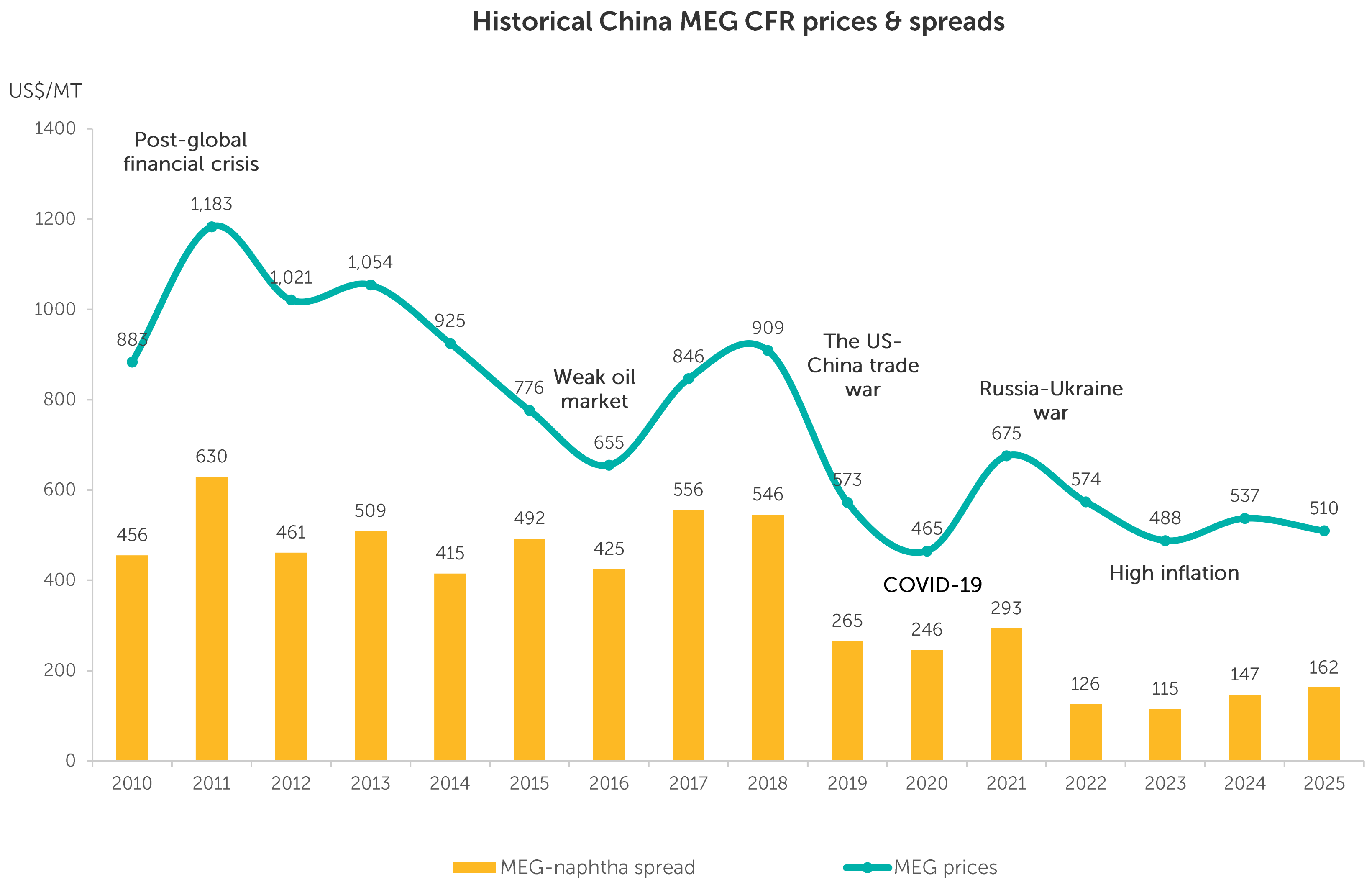
MEG

A wave of capacity additions will suppress MEG operating rates before firming up again by end of decade



Source: S&P Global Commodity, CMA, Team Analysis

Despite expected demand recovery, spread will continue to be pressured by massive capacity expansion

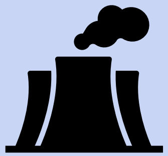


Source: S&P Global Commodity, CMA, ICIS, Team Analysis

MARKET OUTLOOK

China alone will account for almost all the **new capacity** in the next 5 years

North America and **Middle East** remain as the **largest exporters** of MEG, supplying to Asia market

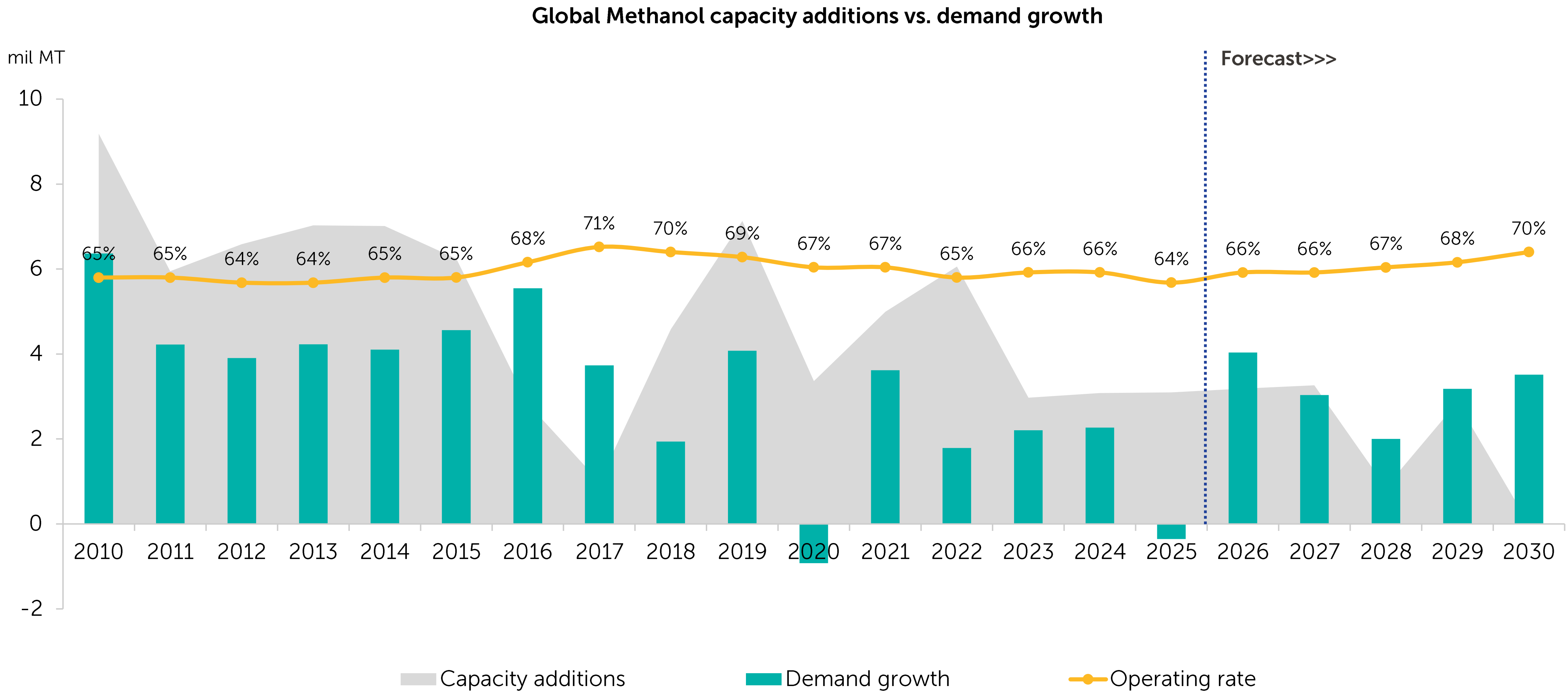


No major rationalizations are anticipated in the near term, **weighing down global operating rate**

Demand growth is limited by **slower economic expansion** in China, **saturation** in developed markets, and **higher PET recycling** penetration

Methanol

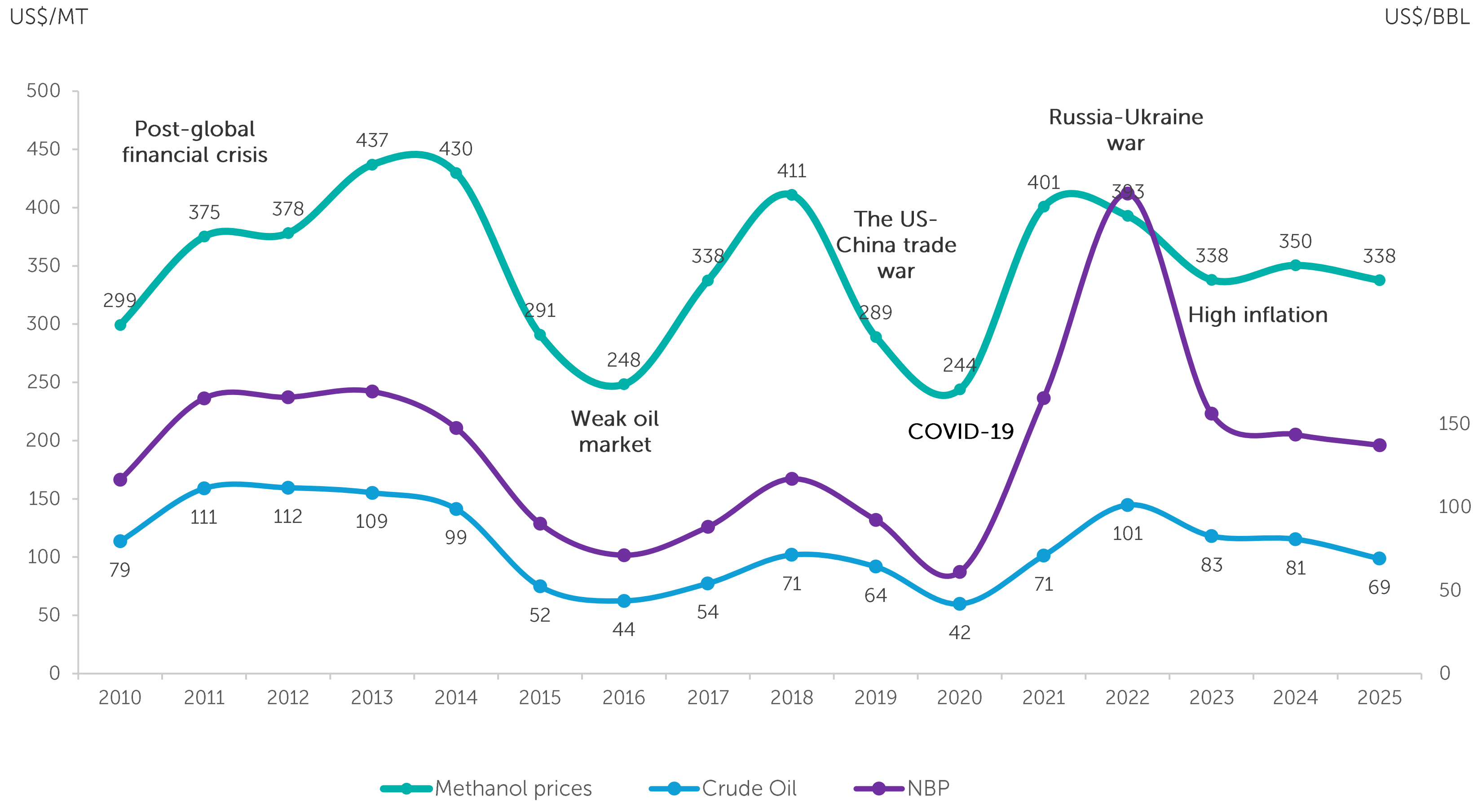
Lesser capacity addition in future will lend support to a healthy operating rate for methanol



Source: S&P Global Commodity , CMA, Team Analysis

Price expected to stabilize following demand recovery and lesser capacity addition

Historical SE Asia Methanol CFR prices & spreads



Source: S&P Global Commodity, CMA & Team Analysis

MARKET OUTLOOK

Lesser export volume from **sanctioned** Iran. **China** and **India** are expected to remain **major net importers.**

China's **capacity growth** will be **partially offset** by the **closure** of smaller, inefficient, and more polluting units

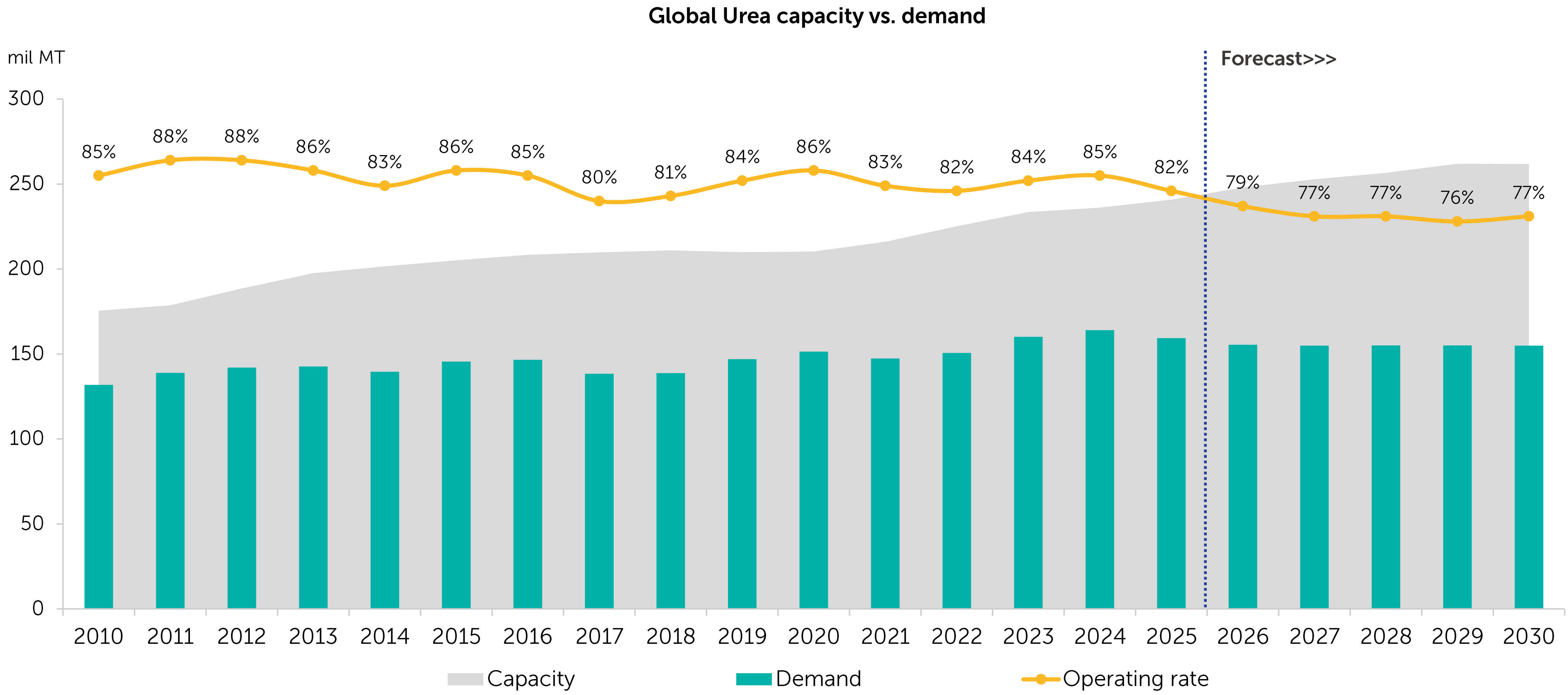
Demand from the **marine fuel** sector is forecast to **rise significantly**, reaching 11 mil MT by 2034

4-5 mil MT **MTO** capacity continues to be added in the next 2 years amidst low olefin prices

Growth of **low-carbon methanol** units, driven by corporate and national **sustainability agendas**

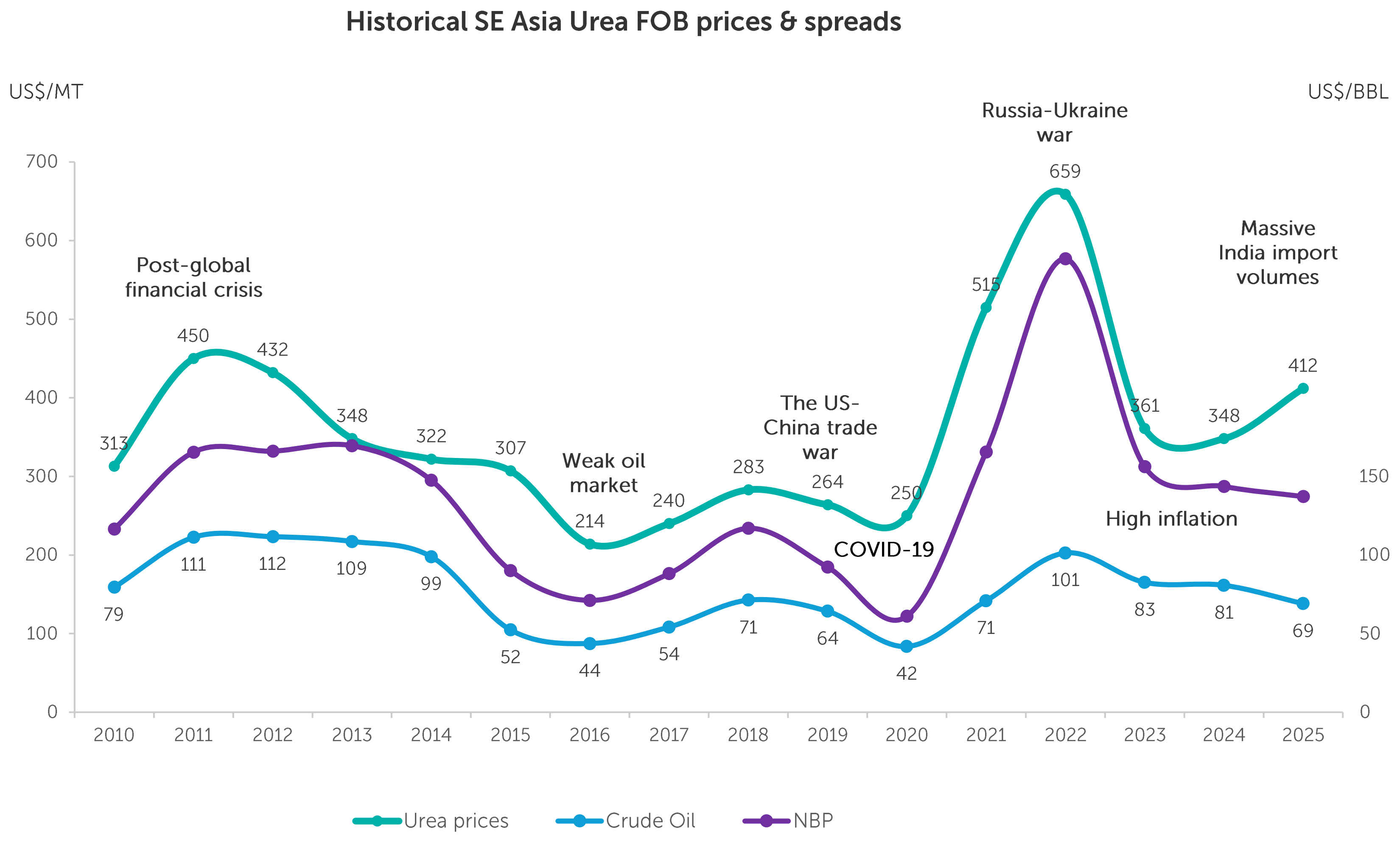
Urea

Capacity addition is expected to grow at much slower pace in the future than over the past decade



Source: S&P Global Commodity & Team Analysis

Urea prices continue to stabilize recovering from downward trajectory as weak demand and supply overhang kept prices under pressure



Source: S&P Global Commodity & Team Analysis

MARKET OUTLOOK

Asia Pacific remains as a **net importer**, with **China** and **India** as the dominant demand centres

Export restrictions by China persist at least until **end of decade**

Global capacity addition will continue to **outpace** demand growth in the near term, **lowering operating rate** to mid-70%

Demand will **grow modestly** at 0.4% due to reduced agricultural land availability and technology advancements

Key Takeaways for 2026 PCG Key Products Outlook

- A surge in new capacity is expected to keep petrochemical products **margin and operating rates under pressure** until end of decade.
- **Demand in Asia Pacific** is experiencing **steady growth**, supported by population expansion, ongoing urbanization, and increasing consumer incomes.
- **Global capacity addition** will continue to **outpace demand growth** in the future although it won't be as aggressive as before.
- Some **capacity rationalisation among marginal high-cost plants** is expected in Taiwan, Japan, and South Korea; however, the market is unlikely to rebalance in the near term.
- Governments intervention in **safeguarding local interest** by **enforcing measures** such as antidumping duty and tariff to reduce competition.
- Sustainability products such as recycled polymers and low-carbon methanol are currently driven by **regulatory enforcement**, **corporate sustainability commitments**, and **growing consumer demand** for sustainable materials.

Specialty Chemicals Outlook

Lim Wen Jun
Senior Manager,
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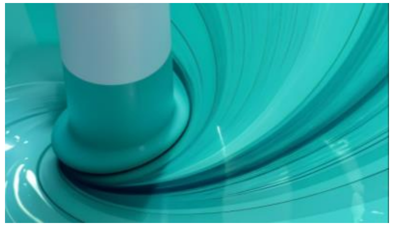
Specialty Chemicals, PCGB

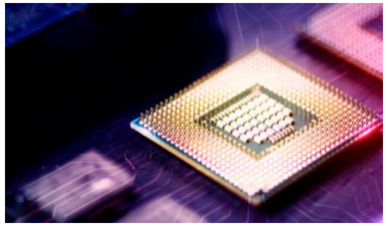
PCG SC Focus Segments

Growth Focus Segments



Coatings Solutions

Range of building blocks and specialty products can be used and tailored to produce resins and coatings

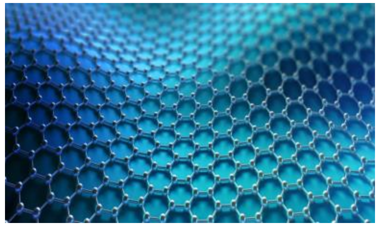


Engineered Fluid Solutions

Provider of customized fluid solutions, perfecting thermal and friction management

Personal Care Solutions

Provider of functional ingredients for Hair Care, Skin Care & Color Cosmetics



Advanced Polymer Solutions

Provider of focused and innovative chemistry for futureproof, safe, and sustainable materials

PCG SC Building Blocks

- **Polyols**
- **Formates**
- **Oxo**
- **Silicones**
- **Animal Nutrition**

Construction Outlook

Stabilisation year rather recovery, with slow residential demand offset by infrastructure, industrial, and energy-transition projects

US

- US Construction demand remains mixed: Infrastructure, industrial & Non-Residential projects are the key drivers, while Residential projects are sluggish. Construction costs and labor shortages persists.
- Contractors remain price-sensitive but stable demand expected for specialties.

EU

- EU Construction volumes remain pressured: Residential projects remain weak potentially with modest recovery in 2026 with ongoing support from Infrastructure & Public Works projects.
- Demand shifting toward energy-efficient, regulation-compliant, low-carbon materials.

China

- China Construction structurally challenged: Residential projects remain weak and Infrastructure & Industrial growth is heavily linked to Government funding/ support.
- Demand is shifting from new, massive, city-scale projects towards urban redevelopment, including renovation, smart city tech and sustainable living.

Rest of APAC

- Rest of APAC Construction remains growth engine: India-led momentum and continued ASEAN infrastructure pipeline development support market, while Northeast Asia holds steady through renovation & public works.

2026 1H Outlook: LSD decline – Cautious (yoy)

References: Goldman Sachs, Euroconstruct, ECB, J.P. Morgan, Asian Development Bank, McKinsey & Company, SC Internal

Automotive outlook

Global production grows modestly, EV growth slows while material demand remains resilient

US

- US Automotive production is soft: With tighter affordability and policy uncertainty weighing on volumes. OEMs focus on cost control and inventory discipline while EV penetration grows slower.
- Limited pricing power but stable demand for specialties in OEM & refinish coatings.

EU

- EU Automotive production remains under pressure: EV adoption rates have cooled against expectations with OEMs facing cost/ regulatory burdens and intense import competition.
- Pressure on margins for automotive players, demanding shift to high-spec coatings with lightweight and performance additives.

China

- China Automotive production remains largest auto market and export hub, with intense domestic competition keeping pricing pressure high on players.
- Pricing pressure on chemicals persists due to intense domestic competition.

Rest of APAC

- Rest of APAC Automotive remains stable: Strongest incremental growth led by India and ASEAN. Japan and Korea remain stable with technology-led demand.

2026 1H Outlook: LSD Stable with Sligh Growth – Neutral (yoy)

References: UBS, Morgan Stanley, Roland Berger, S&P, J.P Morgan, SC Internal

Consumer goods outlook

Consumer spending remains resilient but cautious, prioritising value and necessity

US

- US shoppers remain value driven: With store-brand sales growth outpacing national brands by about 3x times.
- Limited pricing upside for specialties.

EU

- EU consumers remain cautious: Continued consumer caution with trade-down behavior persists.
- Sustainability and regulatory compliance increasingly mandatory for producers in value chain.

China

- China consumption is supported by policy: Gradual consumption recovery with government stimulus such as trade-on schemes and domestic consumption support underpins demand.
- Pricing for specialties remain competitive due to local supply intensity

Rest of APAC

- Stronger growth due to rising middle class and premium personal care adoption. India and ASEAN outperform, Japan remains stable.

2026 1H Outlook: LSD Modest Growth – Positive (yoy)

References: S&P Global, Goldman Sachs, McKinsey Company, J.P. Morgan, Euromonitor International, SC Internal Analysis

Key takeaways for 2026 Specialty Chemicals Market Outlook

- PCG Specialty Chemicals continue to invest in and grow its focus segments including Coatings Solutions, Engineered Fluid Solutions, Personal Care, and Advanced Polymer Solutions, supported by core building blocks such as polyols, formates, oxo intermediates, silicones and animal nutrition.
- Across key end-market, volumes are modest or stabilising rather than strongly recovering, especially in the US and EU. However, specialty chemicals continue to show resilience versus bulk chemicals or Intermediates, supported by performance, compliance, and formulation-driven demand.
- Growth is concentrating in APAC, supported by infrastructure build-out, industrialisation and rising middle class consumption. U.S. and EU markets face regulatory and cost pressure as well as subdued residential and automotive growth.
- Construction market is stable, shifting demand toward functional and sustainable materials, with 2026 more a stabilisation rather than a rebound year. Demand is shifting toward energy-efficient, regulation-compliant, and low-carbon materials, favouring specialty.
- Automotive market expected to grow modestly. Demand for specialty materials remains resilient, though pricing and margins face pressure from competition, regulation and OEM cost discipline.
- Consumer spending is cautious, with increasing value-driven behaviour and trade-down trends persisting. This dynamic constrains price increases but sustains demand for formulation driven, compliant and premium ingredients.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